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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [NL](#)
SUBJECT: NETHERLANDS: COMMISSION MAINTAINS PRESSURE ON ABN
AMRO-FORTIS AND ING DEALS, NO RESCUE FOR DSB

REF: (A) 08 THE HAGUE 840, (B) THE HAGUE 60

THE HAGUE 00000642 001.3 OF 002

11. (SBU) Summary: Under pressure from the European Commission, the Government of the Netherlands (GONL) announced a deal October 20 in which ABN Amro will sell several business units to Deutsche Bank in order to allow its merger with Fortis to go through. However, the GONL and Commission remain at odds over the GONL's decision in January to guarantee 80 percent of ING's 27.7 billion euro (USD 40.9 billion) portfolio of U.S. mortgage-backed securities. Despite these protracted disputes with the Commission, the GONL's refusal this month to rescue the failed Dutch bank DSB shows its commitment to avoid using taxpayer money to rescue banks that do not present systemic risk. End summary.

ONE LESS HURDLE FOR ABN AMRO-FORTIS MERGER

12. (U) Under pressure from European Competition Commissioner Neelie Kroes, Dutch Finance Minister Wouter Bos announced October 20 that Deutsche Bank would buy several business units of Dutch bank ABN Amro, including Hollandsche Bank Unie and 15 local ABN Amro branches. Kroes had insisted on the sale as a pre-condition to the GONL's planned merger of ABN Amro and Fortis Bank NV. In October 2008, the GONL bought all Dutch operations of troubled Belgian banking conglomerate Fortis for 16.8 billion euro (USD 24.8 billion), including ABN Amro which Fortis had purchased the previous year (ref A). The GONL has been working to merge Fortis and ABN Amro; it plans to privatize the conglomerate in 2011 or later when market conditions allow. Kroes argued that the sale of some of ABN Amro's business units was essential to protect competition in the Dutch banking sector, particularly given plans to merge two of the country's largest banks. After extending the deadline for a fifth time, Kroes was reportedly growing increasingly impatient with the GONL's inability to broker a deal.

13. (SBU) Our contacts in the Ministry of Finance's Foreign Financial Relations Directorate flatly denied rumors that the ministry had frustrated earlier attempts by Deutsche Bank to buy ABN Amro's business units to prevent more competition in the Dutch market. To the contrary, they asserted that Minister Bos had been pushing hard for the deal in order to clear the way for the ABN Amro-Fortis merger and, more importantly, the ultimate re-privatization of the conglomerate; the delay, they said, had simply been due to the parties' inability to agree on a price for the ABN Amro units. Although the details of the sale are not public, some financial experts have expressed concern that the units were sold at a depressed price and could therefore necessitate another capital injection by the GONL into ABN Amro.

14. (SBU) Despite positive momentum in the ABN Amro case, the GONL and EU Competition Commissioner Kroes remain at odds over the case of Dutch banking and insurance giant ING Group NV. In January 2009, the GONL agreed to provide ING with an "Illiquid Assets Back-up Facility" in which the GONL guaranteed 80 percent of ING's 27.7 billion euro (USD 40.9 billion) portfolio of U.S. "Alt-A" medium-quality, mortgage-backed securities, whose illiquidity was weighing on ING's balance sheet (ref B). The Commission launched an investigation on ING's balance sheet (ref B). The Commission launched an antitrust investigation in mid-2009, asserting that the GONL may have provided ING with an unfair competitive advantage by overvaluing its Alt-A securities and providing an exorbitant guarantee. The GONL has responded to the Commission's various requests for information, and despite reports of friction and Commission accusations of Dutch arrogance in the case, Finance Minister Bos maintains that he and Commissioner Kroes have a "constructive dialogue" on the matter. Kroes told the Dutch Parliament's Finance Committee October 13 that she is "optimistic" about finding a solution before her Commissioner term ends in December.

BANKRUPTCY OF DSB

15. (U) DSB Bank NV, the Netherlands' twelfth largest bank, declared bankruptcy on October 19, after a run by depositors following calls to pull money out of the institution. DSB was a privately-owned institution with 1.3 million (mostly Dutch) clients and reported assets of 8 billion euro (USD 11.8 billion). The Dutch Central Bank won an emergency court order October 12 that put DSB into the hands of administrators, after talks between the government and the Netherlands' five main banks failed to save it. AFM, the Dutch

THE HAGUE 00000642 002.3 OF 002

financial regulator, began an investigation earlier this year into claims that DSB allegedly pushed mortgage customers to buy expensive up-front insurance policies; AFM fined DSB 120,000 euro (USD 177,000) in August for those sales. In early October, a bank customer association called Mortgage Suffering urged clients to withdraw their deposits from DSB, resulting in a run on the bank of 664 million euro (USD 979 million), or about 17 percent of DSB's total deposits. The GONL's deposit guarantee scheme (in which healthy banks cover the deposits of failed banks) will reimburse DSB customers up to 100,000 euro (USD 147,500) for each savings account. (Note: The largest Dutch savings banks, e.g. Rabobank, are highly critical of this scheme, arguing that it punishes them at the expense of poorly managed failing banks. End note.)

16. (U) Finance Minister Bos described the DSB bankruptcy as a one-off situation unconnected with other events in the 2008 Dutch financial crisis, including the nationalization of Fortis and the 13 billion euro (USD 19.2 billion) state bailouts of ING Group NV and insurer Aegon NV. Bos added that there would be an independent investigation of the way the bank was managed and the role played by the bank regulator.

Comment

17. (SBU) Comment: Ranked by the Financial Times as the fifth best European Finance Minister in 2008, Bos' protracted disputes this year with Commissioner Kroes about the ABN Amro-Fortis merger and ING bailout have scuffed his golden image as the savior of the Dutch financial sector. On the plus side, however, Bos' refusal to rescue DSB shows that the GONL has drawn a line in the sand and will not use taxpayer money to bail out banks that do not present systemic risk. End comment.